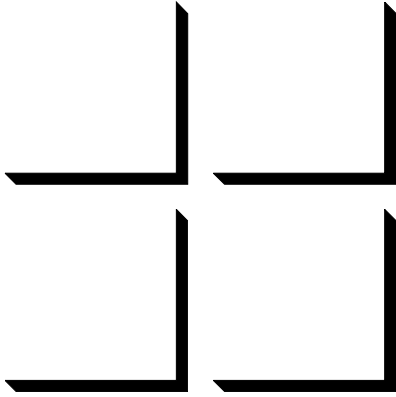


August 10, 2006

**Preliminary Report for
Ojo de Agua
Redevelopment Project,
Amendment No. 4**

Morgan Hill Redevelopment Agency



Preliminary Report for Ojo de Agua Redevelopment Project, Amendment No. 4

Morgan Hill Redevelopment Agency

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Preliminary Report for Ojo de Agua Redevelopment Project, Amendment No. 4

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Preliminary Report for Ojo de Agua Redevelopment Project, Amendment No. 4

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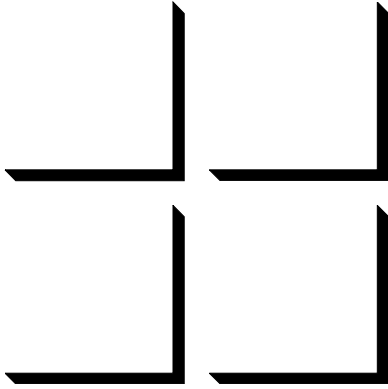
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EXECUTIVE SUMMARY

The Community Development Plan for the Ojo de Agua Redevelopment Project was adopted in May, 1981. Since that time, about \$250 million has been invested by the Morgan Hill Redevelopment Agency on improvements in the Project Area.

Due to the success of the Agency and the low financial limits set in the Plan, the current tax increment cap will soon be reached. At the same time, substantial improvements are still needed, particularly in the Downtown area. Therefore, the Agency is proposing to amend the Plan to:

- Repeal the debt incurrence limit
- Extend the tax increment and Plan effectiveness dates
- Re-establish and increase the bond limit
- Increase the tax increment limit
- Re-establish eminent domain authority

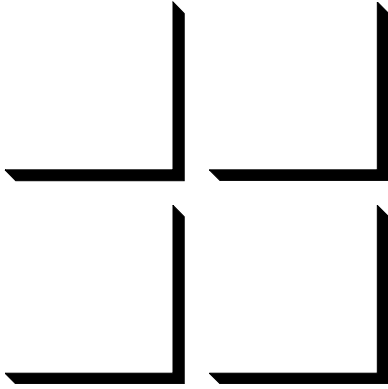
In order to reduce the financial impacts of increased limits on the various local taxing entities, the Agency is also proposing to remove certain areas that no longer need redevelopment assistance. Doing so will provide an immediate increase in revenues for Morgan Hill, Santa Clara County, and other local taxing agencies.

The purpose of this Preliminary Report is to provide affected taxing agencies and other parties with a detailed description of the proposed amendment and to outline the overall intentions of the Agency.

A survey of the Project Area was conducted to document existing conditions and to identify if, and where, blight remains in the Project Area. The results show that significant blight remains in portions of the Project Area.

Improvement projects and programs aimed at eliminating the remaining blight include economic revitalization programs, public infrastructure funding, housing programs, and other redevelopment activities. These actions will address remaining blight through the rehabilitation of existing structures, the development of new structures, and the provision of adequate infrastructure.

The current financial limits restrict the Agency's ability to issue new debt or to finance improvement projects and programs. Therefore, the proposed amendment increases various limits, such as the ability to issue bonds and receive more tax increment, to allow the Agency to continue making improvements in the future.



1.0 INTRODUCTION

1.1 BACKGROUND

A redevelopment plan has been in place in the City of Morgan Hill (the “City”) for over two decades. The Ojo de Agua Community Development Plan (the “Plan”) was adopted by the Morgan Hill City Council (the “City Council”) on June 3, 1981, by Ordinance No. 552. The Plan was amended in 1994 and twice in 1999 to extend various limits.

The area included in the Plan (the “Project Area”) encompasses approximately 2,800 acres (see Figure 1). At the time of adoption there was no urbanization requirement, which will be discussed in detail in Chapter 3.0.

The Morgan Hill Redevelopment Agency (the “Agency”) has invested a significant amount of time and money into the Project Area. Over the past 25 years, the Agency has provided funding for such infrastructure projects as:

- Tennant/Edmundson intersection alignment
- Butterfield Blvd from Cochrane to Tennant
- Dunne Ave widening
- Monterey Road re-pavement
- Tennant Ave widening
- Various water/sewer/storm drain improvements
- Street reconstruction, sidewalk and median improvements, and utility under grounding in the Downtown area

The Agency has also assisted in the construction of the following community facilities:

- Community and Cultural Center
- Centennial Recreation Center
- Aquatics Center
- Library
- Sports Complex

Historic preservation projects completed by the Agency include:

- Villa Mira Monte
- Acton House Museum
- Old Morgan Hill Elementary School (new Carden Academy)
- Grange rehabilitation

The Agency has also assisted in the rehabilitation and construction of over 1,700 residential units, benefiting low-, median-, and moderate-income households.

Additional projects funded by the Agency include small business assistance, façade grants, business attraction and retention, an update of the Downtown Plan, and marketing programs.

Due to the success of the Agency's redevelopment program to date, projections indicate that the current tax increment limit will be met prior to the termination of the Plan. In fact, despite the continuing need for redevelopment, the cap will be reached by the end of 2007 according to the Agency's 2005-2009 Implementation Plan,².

Without an amendment to increase the current \$247 million tax increment limit, the Agency will not be able to address remaining conditions of blight or make other improvements. This is a critical issue because the Downtown area has substantial remaining needs, and other portions of the Project Area are still suffering as well. The proposed new limits in the Plan are necessary and directly related to the Agency's ability to eliminate remaining blight, and are shown in Table 1 below.

Thus, to maintain a meaningful redevelopment program and allow the Agency to fulfill its improvement goals, the Agency is proposing this amendment (the "Amendment"), which would do the following:

- Increase the tax increment limit by \$333,000,000

² On file with the City Clerk and incorporated by reference.

- Increase the bonded indebtedness amount and reauthorize the ability to issue bonds in order to fund major projects
- Repeal the time limit for incurring debt
- Re-establish eminent domain authority only on certain commercial corridors
- Update the list of proposed projects necessary to address remaining blight
- Make any technical changes to the Redevelopment Plan to ensure its on-going conformity to the California Community Redevelopment Law, California Health and Safety Code Section 33000 *et seq.* (the “CRL”)

The proposed Amendment would change the various limits as shown in Table 1.

TABLE 1
CURRENT AND PROPOSED LIMITS

<i>TYPE</i>	<i>CURRENT LIMIT</i>	<i>PROPOSED LIMIT</i>
Debt Incurrence	January 1, 2014	Repeal
Plan Effectiveness	June 3, 2021	June 3, 2024
Tax Increment Receipt	June 3, 2031	June 3, 2034
Bond Limit	\$7,000,000*	\$150,000,000
Tax Increment Limit	\$247,000,000	\$580,000,000
Eminent Domain	Expired	June 3, 2018**

*Current limit is \$7 million, however this was only for bonds issued prior to 1999; there is no current authority to issue new bonds.

**On a limited basis.

The Agency is also proposing to detach properties that no longer need redevelopment assistance. The proposed Detachment Area generally includes industrial and residential properties that are in excellent condition (see Figure 2). The purpose of the detachment is to reduce the impact on the taxing agencies from the increase in the cumulative tax increment limit, and to focus on redevelopment in the remaining Project Area, particularly the Downtown area.

The detachment will also have the benefit of demonstrating that redevelopment has worked in portions of the Project Area, and that redevelopment does, indeed, have an end point. This provides

an immediate increase in revenues for the City's General Fund, Santa Clara County, and other local taxing agencies.

Additional details about the proposed Detachment Area may be found in Chapters 7.0 and 8.0.

1.2 PURPOSE AND REQUIREMENTS OF THIS REPORT

The proposed Amendment is considered a "major" amendment, which involves a complex, statutorily-mandated process designed to provide the City Council with the necessary analysis and input to make an informed decision about the Amendment. A critical step in the process is the distribution of this Preliminary Report at least 90 days prior to a public hearing to consider the Amendment.

The requirements for this Preliminary Report include:

- a) A map of the Project Area showing the areas still blighted, and those no longer blighted. (see Chapter 5.0).
- b) A description of the remaining blight (see Chapter 4.0). See Section 1.4 of this Chapter for the definitions of blight.
- c) A description of the projects or programs proposed by the Agency to eliminate remaining blight (see Chapter 6.0).
- d) A description of how the projects or programs will improve conditions of blight (see Chapter 6.0).
- e) The reasons why the projects or programs cannot be completed without extending the limits (see Chapter 7.0).
- f) The proposed method of financing these programs or projects (see Chapter 8.0). This description shall include:
 1. The amount of tax increment revenues projected to be generated during the period of extension, including the amounts to be deposited into the Low and Moderate Income Housing fund and the amounts to be shared with the affected taxing entities.
 2. The sources and amounts of monies other than tax increment revenues that are available to finance these projects or programs.
 3. The reasons that the remaining blight cannot reasonably be expected to be reversed or alleviated by private enterprise or governmental action, or both, without the use of tax increment revenues available due to the proposed amendment.

There are other requirements for a preliminary report as set forth in CRL Section 33344.5, but they are not germane because the Agency is not proposing the addition of any new territory. Therefore, the following items have not been discussed:

- The reasons for the selection of the proposed Project Area.
- A description of the proposed Project Area, which is sufficiently detailed for a determination as to whether the proposed Project Area is predominantly urbanized. The description shall include at least the following information:
 1. The total number of acres within the proposed Project Area.
 2. The total number of acres that are subdivided into lots of irregular form and shape and inadequate size for proper usefulness and development that are in multiple ownership.
 3. The total amount of acres that are in agricultural use.
 4. The total number of acres that is an integral part of an area developed for urban uses.
 5. The percent of property within the proposed Project Area that is predominantly urbanized.
 6. A map of the proposed Project Area that identifies the property described in paragraphs (2), (3), and (4) (above) and the property not developed for an urban use.

Overall, the information presented in this Report is preliminary and will be finalized in the Report to the City Council later in the amendment process.

1.3 PURPOSE AND GOALS OF THIS AMENDMENT

By extending the limits proposed by this Amendment, the Agency will have greater flexibility to achieve its goals for the redevelopment programs and projects in the Project Area. The Plan includes the following goals:

1. Promote and facilitate expansion and development of new and the retention of existing commerce and businesses to, among other benefits, improve employment opportunities and economic growth within the Project Area specifically and the City in general.

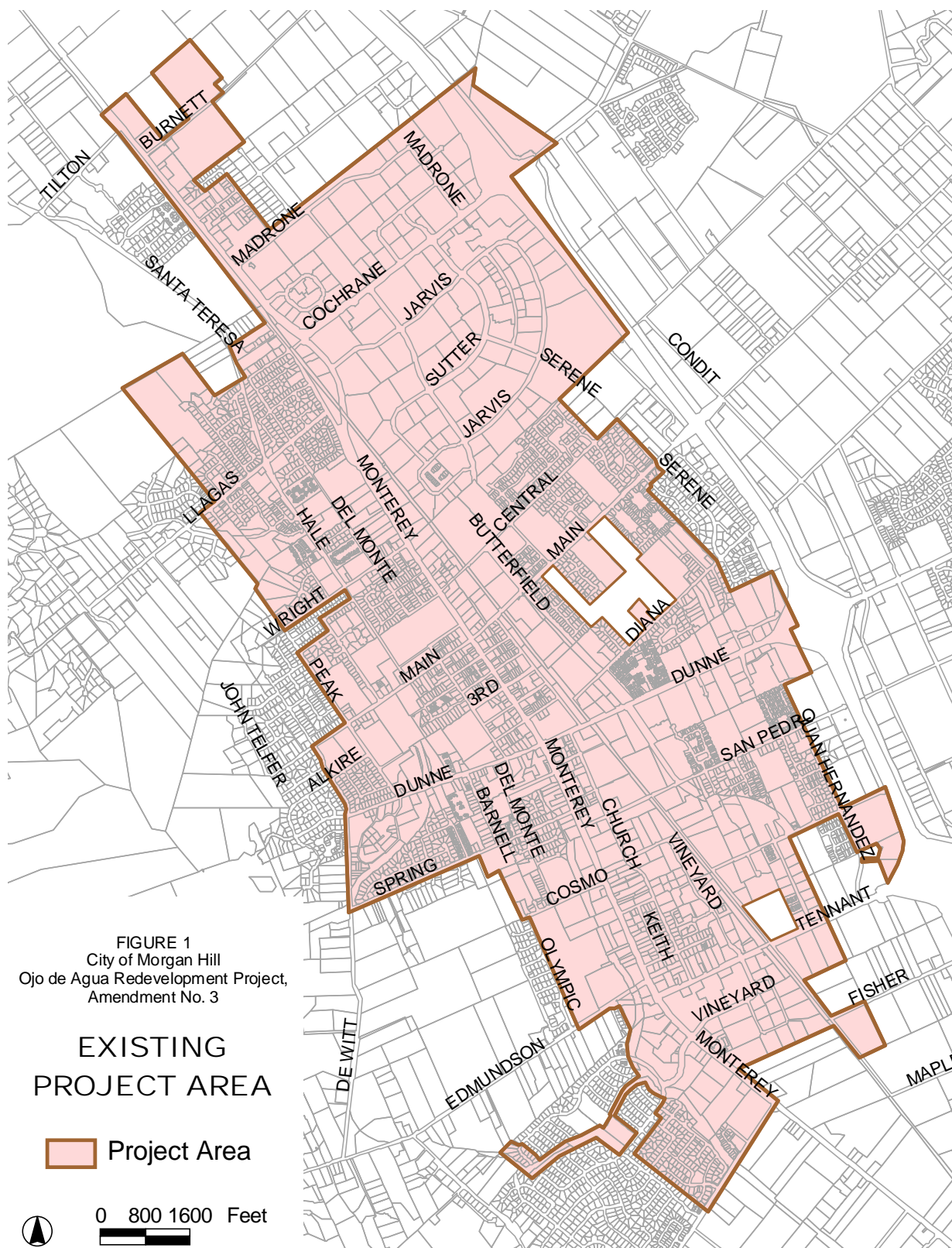
2. Encourage the redevelopment of the Project Area through the cooperation of private enterprise and public agencies.
3. Provide public infrastructure improvements such as the installation, construction and/or reconstruction of streets, utilities, facilities, structures, flood control devices and projects, street lighting, under grounding of overhead utility lines, sewer systems, and other improvements and actions which are necessary for the effective redevelopment of the Project Area.
4. Provide for the development of community buildings and facilities which are necessary for the effective redevelopment of the Project Area.
5. Continue to upgrade and improve the Downtown so that it will continue to serve as the social and commercial center of the community.
6. When feasible, provide owner participation opportunities in conformance with the Amendment.
7. Provide for the rehabilitation of buildings and other structures, especially those buildings, structures, and sites that are of architectural and/or historic value to the City, where determined financially feasible and where the structures can and will serve a significant purpose.
8. Substantially balance the housing stock and economic base of the community.
9. Encourage the enhancement of the residential neighborhoods in the City, especially in terms of basic livability for the residents of the Project Area.
10. Increase, improve and preserve the community's supply of affordable housing and encourage housing improvement and rehabilitation, and encourage public and/or private initiatives, within the parameters of the City's Growth Management System that preserve and enhance the supply of affordable housing throughout the Project Area.
11. Provide for the minimum displacement of residential homeowners and provide relocation assistance where Agency activities result in displacement.
12. Preserve and enhance the "rural, small town" environment of Morgan Hill.

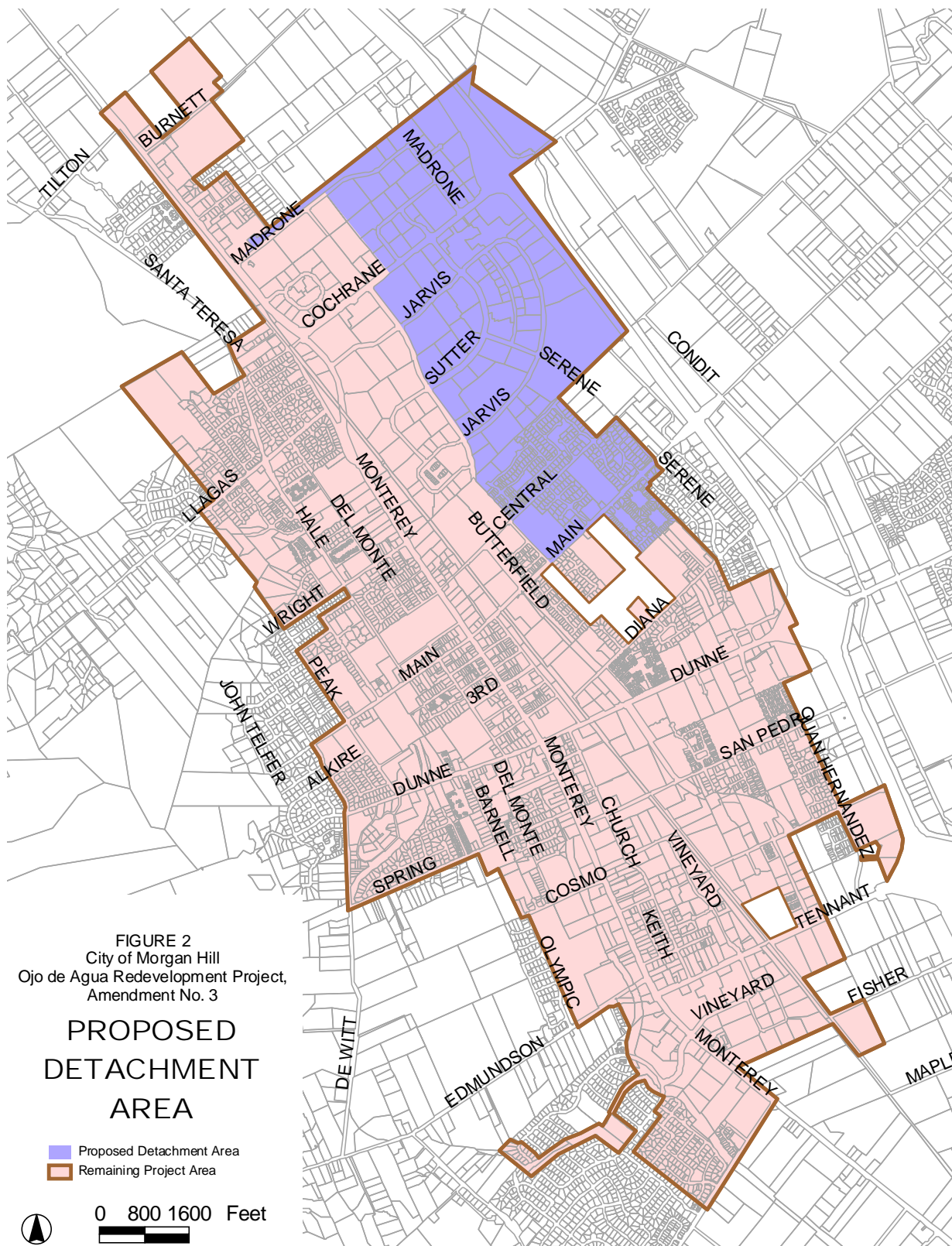
Additionally, the Agency will observe and work to fulfill the goals of the City's General Plan.

Agency actions designed to fulfill the Agency's primary purpose and objective of eliminating blight in the Project Area include:

1. Acquisition, installation, development, construction, reconstruction, redesign, re-planning, or reuse of streets, utilities, drainage systems, flood control measures, sewer systems, curbs, gutters, sidewalks, street lighting, landscaping, and other public improvements, facilities, or other structures;
2. Acquisition and disposition of property acquired for uses in accordance with this Amendment;
3. Redevelopment of land by private enterprise or public agencies for uses in accordance with this Amendment;
4. Construction and improvement of recreational facilities, community facilities, parking facilities and other public facilities;
5. Acquisition, preservation, construction, or rehabilitation or other provision of housing for low and moderate-income families, seniors and handicapped individuals;
6. Financing, where fiscally sound, the improvement, rehabilitation (within the parameters of the City's Growth Management System), or construction of residential, commercial and industrial buildings, and the mortgage financing of residential, commercial and industrial buildings as permitted by applicable State and local laws, to increase the residential, commercial and industrial base of the City and the number of temporary and permanent jobs within the City;
7. In appropriate cases, rehabilitation of structures and improvements or development of vacant land by present owners, their successors and the Agency for uses in accordance with this Amendment;
8. Demolition or removal of buildings and improvements; site preparation;
9. Management of any property acquired under the ownership and control of the Agency; and
10. Such other action as may be permitted by law.

The proposed Amendment will not change these goals and activities.

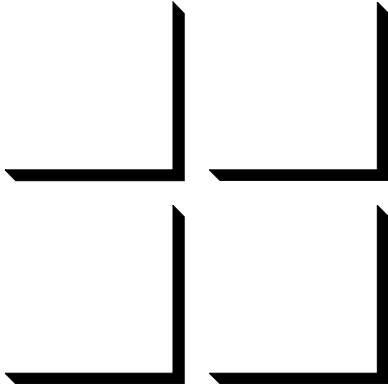




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2.0 BLIGHT DEFINITION

For this type of amendment, the Agency does not have to demonstrate that blight predominates the Project Area as it would if this were the formation of a new redevelopment area. However, it is important to show that significant blight remains in order to justify the need for the extension of limits. The primary purpose of this Report is to provide that evidence.

The blight definition in the CRL has changed since the Plan was originally adopted.

The current definition of blight is as follows:

Section 33030

A blighted area is one that contains both of the following:

- (1) An area that is predominately urbanized and is an area in which the combination of conditions set forth in Section 33031 is so prevalent and so substantial that it causes a reduction of, or lack of, proper utilization of the area to such an extent that it constitutes a serious physical and economic burden on the community which cannot reasonably be expected to be reversed or alleviated by private enterprise or government action, or both, without redevelopment.
- (2) An area that is characterized by either of the following:
 - (A) One or more conditions set forth in any paragraph of subdivision (a) of Section 33031 and one or more conditions set forth in any paragraph of subdivision (b) of Section 33031.

(B) The condition described in paragraph (4) of subdivision (a) of Section 33031.

A blighted area also may be one that contains the conditions described in subdivision (b) and is, in addition, characterized by the existence of inadequate public improvements, parking facilities, or utilities.

Section 33031

(a) This subdivision describes physical conditions that cause blight:

- (1) Buildings in which it is unsafe or unhealthy for persons to live or work. These conditions can be caused by serious building code violations, dilapidation and deterioration, defective design or physical construction, faulty or inadequate utilities, or other similar factors.
- (2) Factors that prevent or substantially hinder the economically viable use or capacity of buildings or lots. This condition can be caused by a substandard design, inadequate size given present standards and market conditions, lack of parking, or other similar factors.
- (3) Adjacent or nearby uses that are incompatible with each other and which prevent the economic development of those parcels or other portions of the area.
- (4) The existence of subdivided lots of irregular form and shape and inadequate size for proper usefulness and development that are in multiple ownership.

(b) This subdivision describes economic conditions that cause blight:

- (1) Depreciated or stagnant property values or impaired investments, including, but not necessarily limited to, those properties containing hazardous wastes that require the use of Agency authority.
- (2) Abnormally high business vacancies, abnormally low lease rates, high turnover rates, abandoned buildings, or excessive vacant lots within an area developed for urban use and served by utilities.

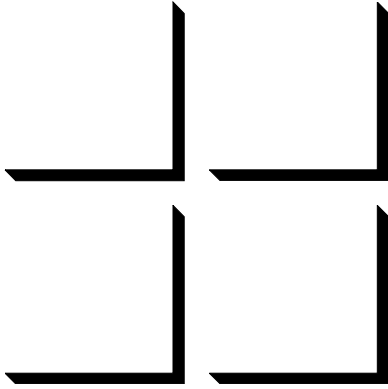
- (3) A lack of necessary commercial facilities that are normally found in neighborhoods, including grocery stores, drug stores, and banks and other lending institutions.
- (4) Residential overcrowding or an excess of bars, liquor stores, or other businesses that cater exclusively to adults that has led to problems of public safety and welfare.
- (5) A high crime rate that constitutes a serious threat to the public safety and welfare.

The above definitions were used as the basis for a field survey to document remaining conditions of blight in the Project Area (see Chapter 4.0 of this Report).

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3.0 *EXISTING AND PLANNED LAND USES*

Table 2 shows the land use breakdown for all uses in the Project Area as they exist now and after the proposed detachment. Figure 3 shows the location of these uses. Because the Agency is not proposing to add territory, there is no requirement to address urbanization, as defined in the CRL.

Table 3 shows the planned land use classifications for the Project Area as they exist now and after the proposed detachment. Figure 4 shows the locations of these uses.

TABLE 2
EXISTING LAND USE - CURRENT

LAND USE	# OF ACRES	% OF GRAND TOTAL ACREAGE
Single Family Residential	639.55	23
Multi Family Residential	130.44	5
Mobile Home Park	57.49	2
Commercial	226.93	8
Commercial Office	38.06	1
Industrial	461.84	16
Institutional (churches, convalescent hospitals, etc.)	41.37	2
Public	261.97	8
Vacant	531.53	19
Sub Total	2,389.18	84
Streets	452.72	16
Grand Total	2,841.90	100.0

EXISTING LAND USE – AFTER PROPOSED DETACHMENT

LAND USE	# OF ACRES	% OF GRAND TOTAL ACREAGE
Single Family Residential	595.55	26
Multi Family Residential	130.42	6
Mobile Home Park	57.49	3
Commercial	197.20	9
Commercial Office	27.37	1
Industrial	252.45	11
Institutional (churches, convalescent hospitals, etc.)	39.37	2
Public	235.84	10
Vacant	438.72	19
Sub Total	1,974.41	87
Streets	292.49	13
Grand Total	2,266.90	100.0

Source: Santa Clara Assessor and GRC Redevelopment Consultants, Inc.

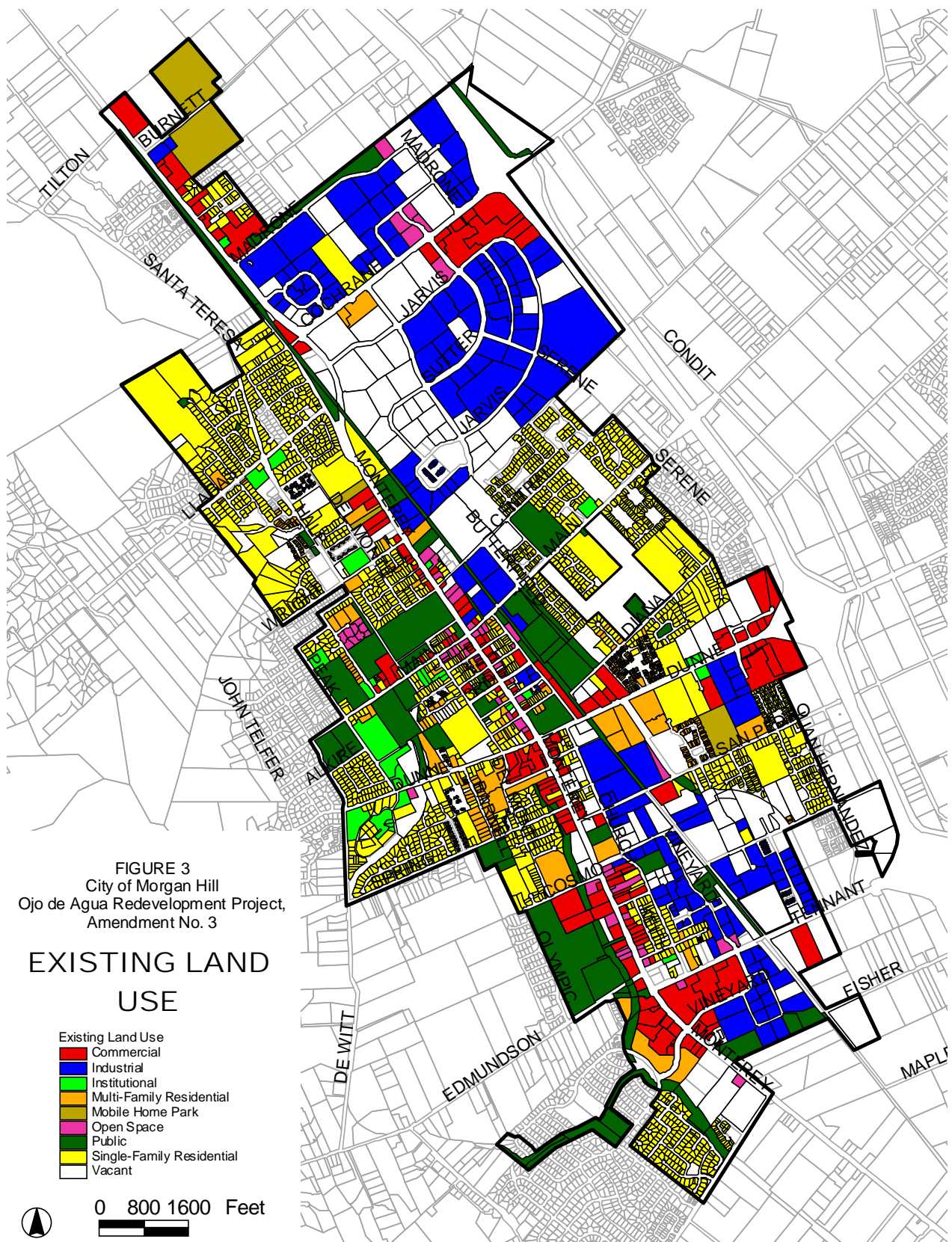
TABLE 3
GENERAL PLAN LAND USE DESIGNATIONS - CURRENT

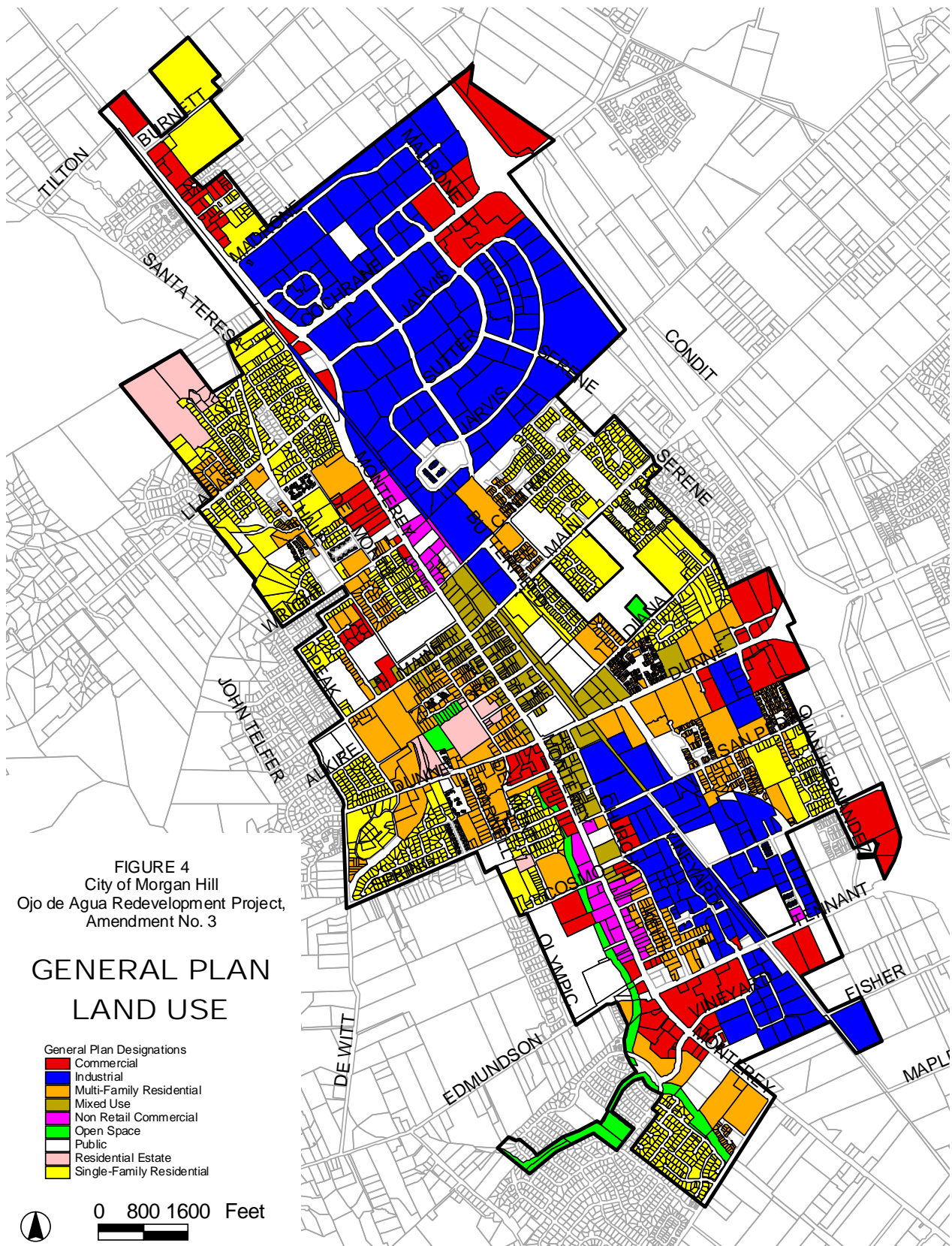
<i>DESIGNATION</i>	<i># OF ACRES</i>	<i>% OF GRAND TOTAL ACREAGE</i>
Residential Estate	57.26	2
Single-Family Residential	610.39	21
Multi-Family Residential	385.45	14
Mixed Use	98.20	3
Commercial	275.02	10
Non Retail Commercial	42.90	2
Industrial	731.18	26
Open Space	40.92	1
Public	147.86	5
<i>Sub Total</i>	2389.18	84
Streets	452.72	16
<i>Grand Total</i>	2,841.90	100.0

**GENERAL PLAN LAND USE DESIGNATIONS –
AFTER PROPOSED DETACHMENT**

<i>DESIGNATION</i>	<i># OF ACRES</i>	<i>% OF GRAND TOTAL ACREAGE</i>
Residential Estate	57.26	3
Single-Family Residential	560.98	25
Multi-Family Residential	382.95	17
Mixed Use	98.20	4
Commercial	223.13	10
Non Retail Commercial	42.90	2
Industrial	511.69	23
Open Space	40.92	2
Public	135.73	6
<i>Sub Total</i>	1,974.41	87
Streets	292.49	13
<i>Grand Total</i>	2,266.90	100.0

Source: City of Morgan Hill

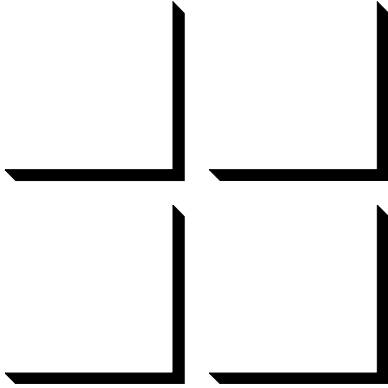




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4.0 REMAINING BLIGHT IN THE PROJECT AREA

4.1 INTRODUCTION

When the original Plan was adopted in 1981, the City Council made findings that the Project Area was blighted based on the evidence presented in the Report to City Council.³ The following is a summary of the negative conditions at the time of adoption:

- Inadequate storm drainage
- Inadequate waste water treatment
- Inadequate water supply
- Poor visual appearance
- Poor traffic circulation
- Hazardous traffic conditions
- Poorly constructed streets
- Inappropriately mixed land uses
- Poor property maintenance
- Structural deficiencies
- Development to be affected by future extension of freeway
- Piecemeal development
- Inadequate access
- Lack of adequate public utilities
- Poor planning/development patterns
- Lack of recreational amenities

³ On file with the City Clerk and incorporated by reference.

In 1999, when the Agency amended the Plan to increase the tax increment cap, extend the time to incur indebtedness, and update the list of proposed projects, a new Report to City Council was prepared.⁴ This document noted “the continued existence of blight in the Project Area” and that 13 of the 29 needed projects and programs listed in the Plan had been only partially addressed. Specific conditions of blight that remained in the Project Area included:

- Commercial vacancies
- Obsolescence
- Structural deterioration
- Underutilized parcels
- Incompatible land uses
- Poor site conditions
- Graffiti
- Deteriorated infrastructure
- Inadequate or irregular parcels
- Deteriorated and missing curbs, gutters, and sidewalks
- Inadequate streets, traffic signalization, water lines, storm drain facilities, and sewer lines

The following is a description of the remaining blight in the Project Area.

4.2 UNSAFE OR UNHEALTHY BUILDINGS – CRL SECTION 33031 (A) (1)

Flooding

Perhaps the most dangerous situation in the Project Area is the likelihood of flooding due to inadequate drainage systems. Approximately 32% of the Project Area has been designated by the Federal Emergency Management Agency (FEMA) as a Special Flood Hazard Area (see Figure 3).

According to FEMA, a home in a floodplain such as this has a 26% chance of suffering flood damage during a 30-year period. By comparison, the risk of fire in that same time period is 5%.

A property owner located in a Special Flood Hazard Area is not only at a high risk for flood and flood damage, but is required by a mortgage lender to have flood insurance. Any new residential

⁴ On file with the City Clerk and incorporated by reference.

construction in this area must have the lowest floor flood-proofed or raised at least one foot above the base flood elevation. This adds significant costs to the price of construction in the Project Area.

An additional hindrance of being in a floodplain includes the requirement that any substantial improvement to a structure (over 49% of the fair market value of the structure before the improvement) must be constructed to the same standards as new construction. This is a significant disincentive to undertake a major renovation unless redevelopment funds are available to assist the property owner. The result is an area with significant increased risk to occupy and therefore unhealthy unless improvements are made.

Morgan Hill has a long history of flooding, particularly in the Project Area, as shown in the photos below.







Source: Gilroy Dispatch

Significant flood control facilities are needed to address this issue, including:

- Upper Llagas Creek Improvements (PL566)
- Butterfield Detention Basin
- Hill Road Storm Drain at East Dunne Avenue
- Farallon Drive Storm Drain

The cost of these needed improvements is approximately \$60,000,000, with the Agency providing funding of about \$22,000,000. These flood control facilities are critical in the Downtown area if redevelopment is to be successful. Additional details about flood control facilities that are needed, as well as other infrastructure deficiencies, may be found later in this Chapter under *Factors that Prevent the Viable Use of Properties*.

Deterioration

To research and document existing conditions in the Project Area, field surveys were conducted in early 2006. Surveys were conducted on foot and in a vehicle by a professional with 16 years of redevelopment experience and 20 years of property evaluation experience. Existing conditions were noted on Santa Clara County Assessor's Parcel Maps, based on the categories of blight discussed in Chapter 2.0. Digital photographs of sample properties were taken and noted on the maps. The information from the maps was

then transferred into a database, which was created from the rolls of the Santa Clara Assessor.

When performing any type of structural conditions survey that examines only the exteriors of structures from the public right-of-way, there are two main points to consider. First, the evaluator can examine only the most durable portions of the structure including the roof, exterior walls, and windows. Second, the exterior of a structure may be concealing any number of structural deficiencies, which could negatively impact the integrity or safety of the structure, but may not be visible from the exterior of the structure.

This means that the presence of negative conditions may be hidden by the more-durable exterior. In other words, if anything, conditions of deterioration are more prevalent than indicated in this Report.

With that in mind, properties in the Project Area were evaluated. The agency does not have the authority to inspect each structure inside and out, visual observations were made from the public right-of-way for safety reasons. It is important to note that no conclusions regarding the *inside* of the buildings have been made based on observations of the *outside* of the buildings.

For purposes of documenting the exterior conditions, buildings in the Project Area was placed into one of three categories.

- ***Structurally Sound*** – Excellent condition; adequately maintained; no repairs needed.
- ***Needs Renovation*** – Maintenance is deferred; needs moderate-to-substantial repairs; requires a significant capital investment. Includes, but is not limited to, conditions such as peeling paint, deteriorated roofing materials, sagging roof, leaning walls, cracked, chipped, or poorly patched exterior finishes, rotting wood, inappropriate building materials such as bare plywood, and broken windows.
- ***Dilapidated*** – Significant damage; requires major repairs; requires substantial capital investment or replacement.

The results of the field survey showed that nine properties are in dilapidated condition and 331 need renovation. Overall, about 9% of the properties in the Project Area are in some degree of significant disrepair. The properties in the most dilapidated condition are at the following locations:

- Mast Street, west of Vineyard Boulevard
- Tennant Avenue

- Diana Avenue, west of Lotus Way
- Monterey Road at the terminus of Wright Avenue
- Monterey Road, north of Spring Avenue
- Del Monte Avenue, north of West Dunne Avenue

Based on professional observations, the bulk of deteriorated buildings are not to the point where they could be considered unsafe or unhealthy. However, they do represent substantial conditions of blight, and therefore discussed in the next section, *Factors that Prevent or Hinder the Viable Use of Properties*.

Deteriorated structures have a significant impact on property values, which substantially hinders the economic viability of the property. As shown in Table 4, the average assessed value of properties with dilapidated structures in the Project Area (as determined through the field surveys) is over seven times lower than those that are in good condition in the Project Area. This demonstrates the negative affect that dilapidation, which is a physical condition of blight, has on property values, which is an economic condition of blight.

TABLE 4
VALUE PER ACRE FOR PROPERTIES THAT ARE DILAPIDATED⁵

TYPE	VALUE PER ACRE	DIFFERENCE
Structurally Sound	\$1,205,881	n/a
Dilapidated	168,500	-86%

Source: Santa Clara Assessor and GRC Redevelopment Consultants, Inc.

The total value of all properties with dilapidated structures in the Project Area is \$3,033,002. If these properties were improved and assessed at the value per acre of structurally sound properties in the Project Area, the total value of the Project Area would increase by over \$215,000,000. This, in turn, would generate over \$2,000,000 annually in additional property taxes that would be received by the Agency and shared with all local taxing agencies due to the requirements of the CRL.

The types of deterioration found in the Project Area include roof damage and deterioration; damage to exterior walls; wood rot; broken, missing, or boarded-up windows; and large portions of

⁵ Determined by professional observations in the field, and calculated from actual values in the Santa Clara County Assessors Rolls. Comparison is between blighted and non-blighted properties in the Project Area to demonstrate the drain on financial resources.

chipped and peeling paint, which exposes bare wood to the elements. Chipped and peeling paint, and other building damage can also expose residents and workers to various hazardous materials.

Hazardous Materials

One of the largest groundwater contamination sites in the entire region is located in the southern portion of the Project Area. The former Olin Corporation (Olin) site is a 13-acre parcel at Tennant and Railroad where signal flares were manufactured for about 32 years from 1956 to 1988. Standard Fusee leased the site and manufactured signal flares for seven years from 1988 to 1995. Potassium perchlorate was used in the manufacture of flares by both Olin and Standard Fusee during that time.

Perchlorate contamination at the site occurred primarily from an unlined evaporation pond that received wastes from the cleaning of the ignition material mixing bowls, on-site incineration of cardboard flare coatings with residues on them, and accidental spills. The perchlorate leached through the soil into the groundwater over the 32 years of operation and created a ten-mile long plume of perchlorate south to Gilroy. In addition, contamination has been found northeast of the Olin property.

Ingestion of perchlorate can limit the uptake of iodide, an essential nutrient, by the thyroid gland. Reduced levels of iodide in the thyroid can disrupt thyroid hormones that regulate metabolism and growth. Because of the health risks involved, monitoring wells were dug and water was provided to thousands of residents.

Since 2001, the Central Coast Regional Water Quality Control Board has issued several orders to Olin to clean up the 10-mile southern plume, but little has been done. Meanwhile, it has been up to the Morgan Hill taxpayers to fund the monitoring and initial clean-up relating to perchlorate found in Morgan Hill wells, which is a source of drinking water for the Project Area. It is estimated that as of June, 2006 approximately \$3 million has been spent on this still unresolved problem.

Additional health and safety risks in the Project Area include hazardous building materials. Due to the age of structures and the building types in the Project Area, the exposure is high. According to the Environmental Protection Agency and the Centers for Disease Control, approximately 80% of homes in the U.S. built prior to 1978 contain lead-based paint. In addition, a study of public buildings by the State of California Department of Health Services revealed that 83% of structures built before 1976 contain bulk-material asbestos. This means that about 800

buildings in the Project Area are likely to contain hazardous materials because they were constructed prior to the abolition of asbestos and lead-based paint.

Asbestos is generally not a health and safety risk in daily living conditions; however, it is a significant concern when individual fibers are released into the air through damage to building materials or through routine maintenance such as sanding, drilling, etc. If these fibers are inhaled, they can become permanently imbedded in the lungs, and scar the lung tissue. This condition can lead to several varieties of cancer.

The common uses for asbestos-containing materials in buildings are for fireproofing on steel beams, and insulation on ceilings and metal piping. Asbestos can also be found in roofing materials, wallboard, exterior siding, floor tile, and adhesives.

Lead-based paint is equally harmful. Children, especially those under the age of six, are particularly vulnerable to lead poisoning. Because the neurological system of a child under age six is in its developmental stages, the effects of lead exposure are most significant on young children.

Interestingly, it is not just deteriorated buildings that expose residents and employees to lead poisoning. The most common form of exposure is the ingestion of lead through dust and soil that have been contaminated over decades of slow accretion of lead particles. The EPA estimates that 24% of properties with lead-based paint are likely to have contaminated soil as well.

This likely presence of hazardous materials severely limits the ability of property owners to expand, modernize, or otherwise rehabilitate their structures because of the extreme costs involved with maintenance and removal of hazardous materials. Assuming a modest \$10,000 cost per structure, removal of asbestos-containing material in the Project Area would cost over \$8,000,000. However, financial assistance as part of the Agency's housing set-aside or another improvement program from the Agency could be available if the proposed Amendment is approved.

It is important to note that the Agency does not require removal of lead based paint or asbestos from any privately owned structure, unless the Agency is providing some sort of financial assistance for an improvement project. However, because the risks increase with regular maintenance, rehabilitation, additions, or other improvements, the costs also increase, thereby substantially hindering the economic viability of those properties in the Project Area.

Unreinforced Masonry Buildings

According to City officials, there are two unreinforced masonry (URM) buildings in the Project Area. Both URM structures are located on the west side of Monterey Road, between Second and Third Streets.

A URM is generally a brick building constructed prior to 1933 and predating modern earthquake-resistant design. The brick is not strengthened with embedded steel bars and is therefore called “unreinforced.” In the event of an earthquake, which is always likely in this region of California,, the brick walls (especially parapets) tend to disconnect from the building and fall outward, creating a hazard for people below and sometimes causing the building to collapse. URM failures have been responsible for deaths in California earthquakes since at least 1868, and as recently as Loma Prieta in 1989 and San Simeon in 2003.

As a result, the State has adopted a set of ordinances that require owners either to list URM buildings as public hazards or to retrofit these buildings so that they meet various structural code standards.

Code Enforcement

According to information from the City’s Code Enforcement Department,⁶ the Project Area has accounted for approximately 60% of all code enforcement complaints since 2003. In addition, during the first two months of 2006, 73% of all complaints were generated within the boundaries of the Project Area. This is a substantial percentage considering the Project Area is only about 38% of the total area of the City.

Serious code violations that occurred throughout the Project Area in just January and February of 2006 include:

- Overflowing sewers
- Unsafe structures
- Housing Code violations
- Mold
- Illegal businesses
- Vermin infestation
- Illegal occupancy
- Illegal construction

⁶ Information on file with the Agency and hereby incorporated by reference.

- Non-operating fire alarms
- Trash and debris

The code violations over the past several years are spread throughout most of the Project Area. However, high concentrations are found in three areas:

1. Along Monterey Road, north of Central Avenue
2. Area bounded by West Main, Monterey Road, West Dunne, and Peak Avenue
3. Tennant Station

See Photos A1- A10 for examples of significant deterioration in the Project Area.

Photo A1

- Damaged walls
- Deteriorating roof
- Boarded up windows



Photo A2

- Missing roof material
- Damaged roof
- Wood rot
- Missing windows
- Chipped and peeling paint
- Long-term abandonment



Photo A3

- Damaged roof
- Rolled roofing material
- Chipped and peeling paint
- Outdoor storage of vehicles



Photo A4

- Sagging foundation



Photo A5

- Damaged walls



Photo A6

- Damaged roof
- Corrugated metal roof
- Broken and boarded up windows



Photo A7

- Roof damage
- Inadequate rolled roofing material
- Does not meet current zoning standards
- Incompatible with adjacent land uses



Photo A8

- Damaged roof
- Damaged walls
- Wood rot
- Chipped and peeling paint



Photo A9

- Damaged walls
- Boarded up windows
- Chipped and peeling paint
- Dirt driveway



Photo A10

- Groundwater testing at the former Olin site



